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IRC Limited 鐵江現貨有限公司
(Incorporated in Hong Kong with limited liability)
(Stock code: 1029)

2019 INTERIM RESULTS

63% INCREASE IN EBITDA OF THE MINE IN PRODUCTION SEGMENT

CONFERENCE CALL

A conference call will be held today at 9am Hong Kong time to discuss the interim results. The number is +852 2112 1888 and the passcode is 5148030#. Presentation slides to accompany the call are available at www.ircgroup.com.hk. A playback of the teleconference will be available from 2 September 2019 at www.ircgroup.com.hk/html/ir_call.php.

Friday, 30 August 2019: The Board of Directors of IRC Limited (“IRC” or the “Company”, together with its subsidiaries, the “Group”) is pleased to provide the interim results of the Company for the six months ended 30 June 2019.

KEY HIGHLIGHTS

Financials

- Revenue increased by 27% to US\$89.2 million (30 June 2018: US\$70.2 million)
- EBITDA of the mine in production segment increased 63% to US\$23.7 million (30 June 2018: US\$14.6 million)
- Write-off of unamortised loan costs, a non-recurring item, of US\$11.5 million due to refinancing of the ICBC loan
- Loss for the period of US\$25.2 million (30 June 2018: US\$15.6 million)
- Underlying loss, excluding non-recurring items and foreign exchange, improved to US\$8.2 million (30 June 2019: US\$9.3 million)

Operations

- K&S – Production and sales volumes increased:
 - Production volume up 16% to 1,262,938 tonnes (30 June 2018: 1,084,602 tonnes)
 - Sales volume up 18% to 1,239,398 tonnes (30 June 2018: 1,046,649 tonnes)
- K&S – operated at record-breaking 93% capacity in June; average production capacity of about 80% in 1H 2019
- Kuranakh – Care and maintenance process satisfactory

Commenting on the results, Peter Hambro, Chairman of IRC said:

“IRC’s principal objectives are to increase production capacity, improve financial performance, manage corporate risks and, above all, increase value and returns to our shareholders. In the first half 2019, we produced 16% more iron ore concentrate than in the same period last year and the EBITDA of the mine in production segment improved by 63% to US\$23.7 million. This good operating result is also attributable to tight cost-controls and, despite general inflation, our cash cost reduced by 3.5% to US\$49.9 per tonne in 2019. Production in August 2019 was affected by torrential rain, but it is expected that the weather would soon improve to allow production to be back to normal level.

Since K&S commenced operation, it has always been our intention to refinance the ICBC loan and we are excited to have Gazprombank as our new finance provider. The repayment schedule of the Gazprombank facility is more closely aligned with the K&S’s production plan and should improve the cashflow position of the Group. However, the costs of the ICBC facility that were hitherto spread over its life now have to be recognised and this non-cash item accounts for almost half of the reported loss for the period.

While we have a portfolio of undeveloped projects, at present, IRC is essentially a single product company and our financial performance is very dependent on the market iron ore price. To manage this concentration of risk, IRC hedges the iron ore price to reduce the risks of adverse price movements. This is important from a risk management perspective, especially in light of the need to service the Gazprombank facility.

We remain cautiously optimistic about the outlook of the iron ore market. The growing demand for iron ore as a critical element in Chinese infrastructure projects and the massive developments on Belt-Road Initiative look to be here to stay and represent strong new sources of demand, which we believe will help offset the continued global trade disputes. With growing production and an attractive portfolio of future projects, IRC is well positioned to meet this market demand of iron ore. We would like to finish by thanking all of our employees and shareholders for their continuous support.”

The board of directors of IRC Limited hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2019 which have been reviewed by the Company’s Audit Committee, comprising of independent non-executive directors, and by the external auditors.

INTERIM FINANCIAL REPORT

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Six Months Ended 30 June 2019

	NOTES	Six months ended 30 June	
		2019	2018
		US\$'000	US\$'000
		(unaudited)	(unaudited)
Revenue	3	89,244	70,185
Operating expenses	5	(71,042)	(61,352)
Depreciation and amortisation	5	(14,919)	(9,132)
Other income, gains and losses		(5,012)	2,976
Allowance for financial assets measured at amortised cost	12	–	(7,548)
Financial costs	6	(24,203)	(10,430)
Loss before taxation		(25,932)	(15,301)
Income tax credit (expense)	7	708	(336)
Loss for the period		(25,224)	(15,637)
Loss for the period attributable to:			
Owners of the Company		(25,204)	(15,619)
Non-controlling interests		(20)	(18)
		(25,224)	(15,637)
Loss per share (US cents)	9		
Basic		(0.36)	(0.22)
Diluted		(0.36)	(0.22)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)

For the Six Months Ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	US\$'000 (unaudited)	US\$'000 (unaudited)
Loss for the period	(25,224)	(15,637)
Other comprehensive income (expense) for the period		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	630	(547)
Fair value (loss)/gain on cash flow hedge instruments	(31,815)	2,026
Release of fair value loss on hedging instruments in cash flow hedges	10,660	–
Total comprehensive expense for the period	(45,749)	(14,158)
Total comprehensive (expense) attributable to:		
Owners of the Company	(45,854)	(14,025)
Non-controlling interests	105	(133)
	(45,749)	(14,158)

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	NOTES	As at 30 June 2019 US\$'000 (unaudited)	As at 31 December 2018 US\$'000 (audited)
NON-CURRENT ASSETS			
Exploration and evaluation assets	10	19,689	19,497
Property, plant and equipment	10	521,884	533,446
Right-of-use assets	10	11,445	–
Inventories		10,926	10,926
Interest in a joint venture		–	–
Other non-current assets		60	3,282
Restricted bank deposit		–	977
		564,004	568,128
CURRENT ASSETS			
Inventories		27,945	23,168
Trade and other receivables	11	18,254	11,027
Time deposits		682	–
Bank balances		7,604	7,637
		54,485	41,832
TOTAL ASSETS		618,489	609,960
CURRENT LIABILITIES			
Trade and other payables	13	(63,465)	(54,788)
Income tax payable		(272)	(292)
Lease liabilities		(3,350)	–
Borrowings – due within one year	14	(20,710)	(111,954)
Other financial liabilities	15	(21,155)	–
		(108,952)	(167,034)
NET CURRENT LIABILITIES		(54,467)	(125,202)
TOTAL ASSETS LESS CURRENT LIABILITIES		509,537	442,926
NON-CURRENT LIABILITIES			
Deferred tax liabilities		(2,914)	(3,565)
Provision for close down and restoration costs		(11,503)	(10,026)
Construction costs payable		–	(8,910)
Lease liabilities		(9,509)	–
Borrowings – due more than one year	14	(211,113)	(100,915)
		(235,039)	(123,416)
TOTAL LIABILITIES		(343,991)	(290,450)
NET ASSETS		274,498	319,510

Condensed Consolidated Statement of Financial Position (continued)

At 30 June 2019

	NOTE	As at 30 June 2019 US\$'000 (unaudited)	As at 31 December 2018 US\$'000 (audited)
CAPITAL AND RESERVES			
Share capital	16	1,285,158	1,285,158
Capital reserve		17,984	17,984
Reserves		(2,697)	17,216
Accumulated losses		(1,025,756)	(1,000,552)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		274,689	319,806
NON-CONTROLLING INTERESTS		(191)	(296)
TOTAL EQUITY		274,498	319,510

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2019

	Total attributable to owners of the Company								Non-controlling interests US\$'000	Total equity US\$'000
	Share capital US\$'000	Capital reserve ^(a) US\$'000	Share-based payment reserve US\$'000	Translation reserve US\$'000	Hedging reserve US\$'000	Other reserve ^(b) US\$'000	Accumulated losses US\$'000	Sub-total US\$'000		
Balance at 1 January 2018 (audited)	1,285,158	17,984	14,190	(21,882)	(1,852)	23,766	(1,068,787)	248,577	(33)	248,544
Loss for the period	-	-	-	-	-	-	(15,619)	(15,619)	(18)	(15,637)
Other comprehensive (expenses) income for the period										
Exchange differences on translation of foreign operations	-	-	-	(432)	-	-	-	(432)	(115)	(547)
Fair value gain on cash flow hedge instruments	-	-	-	-	2,026	-	-	2,026	-	2,026
Total comprehensive (expenses) income for the period	-	-	-	(432)	2,026	-	(15,619)	(14,025)	(133)	(14,158)
Share-based expense	-	-	1,112	-	-	-	-	1,112	-	1,112
Balance at 30 June 2018 (unaudited)	1,285,158	17,984	15,302	(22,314)	174	23,766	(1,084,406)	235,664	(166)	235,498
Balance at 1 January 2019 (unaudited)	1,285,158	17,984	16,156	(22,706)	-	23,766	(1,000,552)	319,806	(296)	319,510
Loss for the period	-	-	-	-	-	-	(25,204)	(25,204)	(20)	(25,224)
Other comprehensive income (expenses) for the period										
Exchange differences on translation of foreign operations	-	-	-	505	-	-	-	505	125	630
Fair value loss on cash flow hedge instruments	-	-	-	-	(31,815)	-	-	(31,815)	-	(31,815)
Release of fair value loss on hedging instruments in cash flow hedges	-	-	-	-	10,660	-	-	10,660	-	10,660
Total comprehensive income (expenses) for the period	-	-	-	505	(21,155)	-	(25,204)	(45,854)	105	(45,749)
Share based expense	-	-	737	-	-	-	-	737	-	737
Balance at 30 June 2019 (unaudited)	1,285,158	17,984	16,893	(22,201)	(21,155)	23,766	(1,025,756)	274,689	(191)	274,498

- (a) The amounts represent deemed contribution from the then ultimate holding company of the Company for (1) certain administrative expenses and tax expenses of the Group paid by the then ultimate holding company of the Company in prior years and (2) share-based payment expenses in relation to certain employees of the Group participated in the long term incentive plan of the then ultimate holding company of the Company.
- (b) The amounts arose from 1) acquisition of non-controlling interests and deemed contribution arising from the group restructuring for the Company's listing on The Stock Exchange of Hong Kong Limited, 2) transfer of share-based payment reserve upon vesting of share-based awards resulted from difference between the cost of the treasury shares and fair value at grant date of the awarded shares, 3) deemed contribution from General Nice Development Limited ("General Nice"), a shareholder of the Company, for accrued interests on outstanding capital contribution, and 4) direct expenses in relation to the right to subscribe for shares of the Company granted to Tiger Capital Fund SPC – Tiger Global SP ("Tiger Fund").

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Net cash generated from operations	13,069	11,675
Income tax paid	(37)	(2,367)
NET CASH FROM OPERATING ACTIVITIES	13,032	9,308
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and exploration and evaluation assets	(1,695)	(2,227)
Time deposits placed	(682)	(306)
Restricted deposits withdrawn	977	1,000
Proceeds on disposal of property, plant and equipment	92	–
Interest received	26	43
NET CASH USED IN INVESTING ACTIVITIES	(1,282)	(1,490)
FINANCING ACTIVITIES		
Repayment of lease liabilities	(1,326)	–
Interest expenses paid	(10,138)	(5,656)
Repayment of borrowings	(231,010)	(31,200)
Proceeds from borrowings	240,000	29,824
Loan guarantee and debt arrangement fees paid	(9,450)	–
NET CASH USED IN FINANCING ACTIVITIES	(11,924)	(7,032)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	(174)	786
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	7,637	8,650
Effect of foreign exchange rate changes	141	(61)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD, represent by bank balances	7,604	9,375

Notes to the Condensed Consolidated Financial Statements

For the Six Months Ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the year ended 31 December 2018 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

In preparing these condensed consolidated financial statements, the directors of the Company have given careful consideration to the going concern status of the Group in light of the Group’s loss for the period, its net current liabilities position of approximately United States Dollars (“US\$”) 54.5 million as at 30 June 2019 and the outstanding bank borrowings and related interest due for repayment in the coming twelve months against the expected future net cash inflows from operations and cash and cash equivalents.

The Group has prepared a cash flow forecast which involves judgments and estimations based on management’s input of key variables and market conditions including the future economic conditions, expected production capacity of the Kimkan and Sutara Project (“K&S Project”), iron ore sales and sales prices and the US\$/Ruble exchange rates for a fifteen month period after 30 June 2019. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.

However, if the market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working capital to finance its operations and loan repayments resulting in its financial liquidity being adversely impacted. The Group would need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

The Group believes it has sufficient liquidity based upon the expected cash to be generated from operations to meet its financial obligations as they fall due for the coming twelve months.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments, which are measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and new interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and new interpretation in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Non-lease components are separated from lease components on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of locomotives and office in Russia that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of machinery and equipment in the Russia was determined on a portfolio basis; and
- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

The Group recognised lease liabilities of US\$12,804,000 and right-of-use assets of US\$12,804,000 at 1 January 2019 for lease of wagons at the mining site.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)****2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)***As a lessee (Continued)*

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 10.79%.

	At 1 January 2019 US\$'000
Operating lease commitments disclosed as at 31 December 2018	16,900
Lease liabilities discounted at relevant incremental borrowing rates	12,804
Lease liabilities relating to operating lease recognised upon application of HKFRS 16 as at 1 January 2019	12,804
Analysis as:	
Current	2,659
Non-current	10,145
	12,804

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of- use assets US\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	12,804
By class:	
Mining assets	12,804

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not attested by the change have not been included.

	Carrying amounts previously reported at 31 December 2018 US\$'000	Adjustment US\$'000	Carrying amounts under HKFRS 16 1 January 2019 US\$'000
Non-current Assets			
Right-of-use assets	–	12,804	12,804
Current liabilities			
Lease liabilities	–	2,659	2,659
Non-current Liabilities			
Lease liabilities	–	10,145	10,145

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

3. REVENUE

Disaggregation of revenue from contracts with customers

Six months ended 30 June 2019 (unaudited)

Segments	Mine in production US\$'000	Engineering US\$'000	Total US\$'000
Types of goods or services			
Sale of iron ore concentrate	75,209	–	75,209
Delivery services	13,337	–	13,337
Engineering services	–	698	698
	88,546	698	89,244
Geographical markets			
PRC	30,720	–	30,720
Russia	57,826	698	58,524
	88,546	698	89,244
Timing of revenue recognition			
A point of time	75,209	–	75,209
Over time	13,337	698	14,035
	88,546	698	89,244

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

3. REVENUE (CONTINUED)**Six months ended 30 June 2018 (unaudited)**

Segments	Mine in production US\$'000	Engineering US\$'000	Total US\$'000
Types of goods or services			
Sale of iron ore concentrate	69,962	–	69,962
Engineering services	–	223	223
	69,962	223	70,185
Geographical markets			
PRC	46,459	–	46,459
Russia	23,503	223	23,726
	69,962	223	70,185
Timing of revenue recognition			
A point of time	69,962	–	69,962
Over time	–	223	223
	69,962	223	70,185

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Six months ended 30 June 2019 (unaudited)

	Mine in production US\$'000	Mines in development US\$'000	Engineering US\$'000	Other US\$'000	Total US\$'000
Revenue					
External sales	88,546	–	698	–	89,244
Segment revenue	88,546	–	698	–	89,244
Site operating expenses and service costs	(79,473)	(168)	(1,093)	(6)	(80,740)
<i>Site operating expenses and service costs include:</i>					
Depreciation and amortisation (see note 5(a))	(14,610)	(140)	(66)	–	(14,816)
Segment results	9,073	(168)	(395)	(6)	8,504
General administrative expenses					(5,118)
General depreciation					(103)
Other income, gains and losses					(5,012)
Allowance for financial assets measured at amortised cost					–
Financial costs					(24,203)
Loss before taxation					(25,932)

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

4. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2018 (unaudited)

	Mine in production US\$'000	Mines in development US\$'000	Engineering US\$'000	Other US\$'000	Total US\$'000
Revenue					
External sales	69,962	–	223	–	70,185
Segment revenue	69,962	–	223	–	70,185
Site operating expenses and service costs	(64,346)	(145)	(752)	(6)	(65,249)
<i>Site operating expenses and service costs include:</i>					
Depreciation and amortisation (see note 5(a))	(8,945)	(107)	(74)	–	(9,126)
Segment results	5,616	(145)	(529)	(6)	4,936
General administrative expenses					(5,229)
General depreciation					(6)
Other income, gains and losses					2,976
Allowance for financial assets measured at amortised cost					(7,548)
Financial costs					(10,430)
Loss before taxation					(15,301)

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

5. OPERATING EXPENSES

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Site operating expenses and service costs ^(a)	80,740	65,249
General administrative expenses ^(b)	5,221	5,235
	85,961	70,484

(a) Site operating expenses and service costs

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Subcontracted mining costs and engineering services	24,941	13,604
Railway tariff	19,416	17,860
Depreciation and amortisation	13,114	9,126
Depreciation of right-of-use assets	1,702	–
Staff costs	9,355	9,985
Materials usage	6,537	5,803
Electricity	3,543	4,332
Property tax	2,909	3,336
Other expense	2,432	1,567
Fuel	1,090	1,139
Professional fees*	728	207
Tax on extraction of mineral resources	215	–
Office costs	176	195
Lease expenses in respect of short-term leases and leases of low-value assets	144	165
Insurance	65	79
Bank charges	59	54
Business travel expenses	21	18
Mine development costs capitalised in property, plant and equipment	(930)	(791)
Movement in finished goods and work in progress	(4,777)	(1,430)
	80,740	65,249

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

5. OPERATING EXPENSES (CONTINUED)**(b) General Administrative Expenses**

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Staff costs other than share-based payments	2,984	2,246
Professional fees*	762	1,273
Share-based payments	737	1,112
Business travel expenses	213	165
Office costs	170	173
Office rent	133	118
Depreciation	103	6
Bank charges	58	97
Insurance	52	45
Other expenses	9	–
	5,221	5,235

* Professional fees comprise audit fees, legal fees, consulting fees, management services fees and engineering consultancy fees.

6. FINANCIAL COSTS

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Interest expense on borrowings	11,361	9,155
Finance expenses on early repayment of bank loan	11,465	–
Interest expense on lease liabilities	671	–
Unwinding of discount on environmental obligation and long-term construction costs payable	706	1,275
	24,203	10,430

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Russia Corporate tax	(19)	(9)
Hong Kong Profits tax	–	(29)
Deferred tax credit (expense)	727	(298)
	708	(336)

Russia Corporate tax is calculated at a rate of 20% of the estimated assessable profit for each of the six months ended 30 June 2019 and 2018.

Based on the approved federal and regional laws in Russia, the K&S Project is considered to be an investment project and is exempted from Russia Corporate tax for the period from 2016 to 2021 and then, will be taxed at a reduced rate of 10% in the following 5 years increasing to 20% thereafter.

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HK\$2,000,000 will be taxed at 16.5%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

No tax from other jurisdictions has been recognised as the Group had no assessable profit arising in or derived from any other jurisdictions for the six months ended 30 June 2019 and 2018.

8. DIVIDENDS

No dividends were paid, declared or proposed to owners of the Company during both the six months ended 30 June 2019 and 2018.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

9. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

Loss

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Loss for the purposes of basic and diluted loss per ordinary share		
being loss for the period attributable to owners of the Company	(25,204)	(15,619)

Number of shares

	Six months ended 30 June	
	2019	2018
	Number	Number
	'000	'000
Number of ordinary shares for the purposes of basic and		
diluted loss per ordinary share	7,093,386	7,093,386

The computation of diluted loss per share for both periods ended 30 June 2019 and 2018 does not assume the exercise of share options granted by the Group because the exercise price of those options was higher than the average market price for the Company's shares.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

10. MOVEMENTS IN EXPLORATION AND EVALUATION ASSETS, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the period, the Group spent approximately US\$1.7 million (for the six months ended 30 June 2018: US\$2.2 million) on the mine development and acquisition of property, plant and equipment.

The depreciation charge for the six months ended 30 June 2019 is approximately US\$14,919,000 (for the six months ended 30 June 2018: US\$9,132,000).

During the current interim period, the Group entered into new lease agreements for the use of bus and office for 3 years and 1.5 years respectively. The Group is required to make fixed monthly payments. On lease commencement, the Group recognised a right-of-use asset of US\$343,000 and lease liability of US\$343,000.

At 30 June 2019, the Group did not have any material contractual commitments for the acquisition of property, plant and equipment (31 December 2018: Nil).

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 US\$'000 (unaudited)	As at 31 December 2018 US\$'000 (audited)
Trade receivables	11,995	2,227
Unbilled receivables under engineering contracts	302	204
Value-added tax recoverable	402	3,762
Prepayments to suppliers	3,534	2,867
Other debtors	2,021	1,967
	18,254	11,027

Unbilled receivables under engineering contracts are expected to be billed and settled within one year and relate to long-term contracts in progress.

The Group allows an average credit period of 30 days to individual third party customers. Except for trade receivables measured at fair value through profit or loss, the Group applies the simplified approach in accordance to HKFRS 9 to measure expected credit loss ("ECL") which used a lifetime, the directors of the Company considered that the lifetime ECL allowance is insignificant as at 30 June 2019 and 31 December 2018.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an analysis of the trade receivables by age, presented based on the invoice date.

	As at 30 June 2019 US\$'000 (unaudited)	As at 31 December 2018 US\$'000 (audited)
Less than one month	11,943	2,222
One month to three months	52	5
Total	11,995	2,227

12. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended 30 June 2019 US\$'000 (unaudited)	2018 US\$'000 (unaudited)
Impairment loss recognised in respect of		
trade receivables	–	29
other receivables	–	7,519
	–	7,548

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

13. TRADE AND OTHER PAYABLES

	As at 30 June 2019 US\$'000 (unaudited)	As at 31 December 2018 US\$'000 (audited)
Trade payables	9,000	8,188
Advances from customers	151	229
Interest payables	572	339
Construction cost payables	22,351	13,182
Accruals and other payables	31,391	32,850
	63,465	54,788

For individual third party trade creditors, the average credit period on purchase of goods and services for the period was 27 days (31 December 2018: 11 days).

The following is an aged analysis of the trade creditors based on invoice date.

	As at 30 June 2019 US\$'000 (unaudited)	As at 31 December 2018 US\$'000 (audited)
Less than one month	5,556	6,058
One month to three months	2,937	1,922
Over three months to six months	353	131
Over six months	154	77
Total	9,000	8,188

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

14. BORROWINGS

	As at 30 June 2019 US\$'000 (unaudited)	As at 31 December 2018 US\$'000 (audited)
Bank loans		
Gazprombank JSC	231,758	–
Industrial and Commercial Bank of China (“ICBC”)	–	158,777
	231,758	158,777
Other loans		
EPC – Finance LLC	65	63
CJSC Pokrovskiy Rudnik	–	54,029
	65	54,092
Total	231,823	212,869
Secured	231,758	158,777
Unsecured	65	54,092
	231,823	212,869
Carrying amounts repayable*:		
Within one year	20,710	111,954
More than one year, but not exceeding two years	20,348	44,886
More than two years, but not exceeding five years	61,045	56,029
More than five years	129,720	–
Total	231,823	212,869
Presented as:		
Current liabilities	20,710	111,954
Non-current liabilities	211,113	100,915
	231,823	212,869

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

14. BORROWINGS (CONTINUED)

The Group is required to comply with certain restrictive financial covenants and undertaking requirements.

Bank loan from ICBC

The Group entered into a project finance facility agreement with ICBC (the "ICBC Facility Agreement") on 13 December 2010 pursuant to which ICBC would lend US\$340,000,000 to LLC KS GOK, a subsidiary of the Group, to be used to fund the construction of the Group's mining operations, the K&S Project. The whole facility was originally repayable semi-annually in 16 instalments of US\$21,250,000 each, starting from December 2014 and would be fully repayable by June 2022. On 27 February 2017, ICBC agreed to restructure two repayments originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US\$42,500,000 into five subsequent semi-annual repayment instalments. As a result, each of the repayment instalments due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 increased by US\$8,500,000 to an amount equal to US\$29,750,000.

On 19 March 2019, the Group repaid the outstanding loan principal and interest in full and terminated the ICBC Facility Agreement.

Bank loan from Gazprombank JSC

On 18 December 2018, the Group entered into two facility agreements for a loan in aggregate of US\$240 million (the "Gazprombank Facility"). The Gazprombank Facility will mature in 2026 and consists of two tranches. The principal under the first tranche amounts to US\$160 million with interest being charged at the London Inter-bank Offer Rate ("LIBOR") + 5.7% per annum and is repayable in equal quarterly payments during the term of the Gazprombank Facility, the final payment in December 2026. The principal under the second tranche amounts to US\$80 million with interest being charged at LIBOR + 7.7% per annum and is repayable in full at the end of the term, in December 2026. Interest charged on the drawn down amounts under the two tranches is payable in equal quarterly payments during the term of the Gazprombank Facility.

On 19 March 2019, the Group drew down on the Gazprombank Facility to repay the bank loan from ICBC in full of approximately US\$169 million and to finance the K&S Project's working capital of approximately US\$3 million.

On 21 March 2019, the Group further drew down on the Gazprombank Facility to repay the loans from CJSC Pokrovskiy Rudnik in full of approximately US\$57 million.

The remaining amounts of the Gazprombank Facility will be used for the following purposes: (i) to finance the K&S Project's working capital of approximately US\$5 million and (ii) to repay part of the guarantee fee of approximately US\$6 million owed by the Group to Petropavlovsk plc in respect of their guarantee of the ICBC Facility Arrangement.

As at 30 June 2019, the full facility amount of US\$240 million has been fully drawn down.

The Gazprombank Facility is secured by i) a charge over the property, plant and equipment with net book value of US\$28 million, ii) 100% equity share of Kapucius Services Limited in LLC KS GOK and iii) a guarantee from Petropavlovsk plc.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

14. BORROWINGS (CONTINUED)

Bank loan from Gazprombank (Continued)

The drawn down of the Gazprombank Facility is subject to the following requirements:

- a) LLC KS GOK must maintain an authorised capital not less than RUB9.1 billion;
- b) the Group must provide quarterly reporting; and
- c) the LLC KS GOK must meet the following financial covenants:
 - i) Net Debt/EBITDA ratio:
 - For the periods ending on 30 June 2019 and 31 December 2019 of less than 6.5 times
 - For the periods ending 30 June 2020 and 31 December 2020 of less than 5.0 times
 - For the periods ending 30 June 2021 and 31 December 2021 of less than 3.5 times and,
 - Starting from the period ending on 30 June 2022, of less than 3.0 times
 - ii) Debt Service Coverage Ratio (DSCR):
 - For the periods ending on 30 June 2019 or 31 December 2019 – not less than 1.1 times
 - Starting from the period ending on 30 June 2020 – not less than 1.2 times

Loan from EPC-Finance LLC

On 27 April 2018, LLC Petropavlovsk Iron Ore, a subsidiary of the Group, obtained an unsecured loan facility of RUB6,000,000 from EPC-Finance LLC, an independent third party. The loan carries interest of 11% per annum and is be repayable on 27 April 2020. As at 30 June 2019, RUB4,080,000 (equivalent to US\$65,000) has been drawn down (31 December 2018: RUB4,080,000 (equivalent to US\$63,000)).

Loans from CJSC Pokrovskiy Rudnik

On 13 June 2018, the Group obtained an unsecured short-term loan of RUB1,877,712,900 (equivalent to US\$29,750,000) from CJSC Pokrovskiy Rudnik, a subsidiary of Petropavlovsk PLC. The loan carries interest of 12% per annum and is repayable on 21 March 2019.

On 18 December 2018, the Group obtained a second unsecured short-term loan of RUB1,798,712,000 (equivalent to US\$27,000,000) from CJSC Pokrovskiy Rudnik. The loan carries interest of 16% per annum and was repayable on 21 March 2019.

On 21 March 2019, the Group repaid the outstanding loan principal and interest in full and terminated the credit facility.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

15. OTHER FINANCIAL LIABILITIES

	Current	
	As at	As at
	30 June	31 December
	2019	2018
	US\$'000	US\$'000
	(unaudited)	(audited)
Other financial liabilities		
Derivatives under hedge accounting		
Cash flow hedges – Commodity Swap Contracts	(21,155)	–

Cash flow hedges

At the end of the reporting period, the Group had the following commodity swap contracts designated as highly effective hedging instruments in order to manage the Group's iron ore price exposure in relation to iron ore forecast sales.

The fair value of commodity swap contracts at the end of the reporting period are provided by counterparty financial institutions.

During the period ended 30 June 2019, the loss on changes in fair values of the commodity swap contracts under cash flow hedges amounting to US\$31,815,000 (six months ended 30 June 2018: gain on changes in fair values of US\$2,026,000) has been recognised in other comprehensive income, and the fair value losses of the hedging instruments amounting to US\$10,660,000 (six months ended 30 June 2018: nil) were reclassified from hedging reserve to profit or loss in the same period when the hedged item affects profit or loss upon the settlement.

16. SHARE CAPITAL

There were no movements in the issued share capital of the Company during the six months ended 30 June 2019 and 2018. Details of the share capital of the Company at 30 June 2019 and 31 December 2018 are as follows:

	Number of shares	Share capital US\$'000
Issued and fully paid		
At 1 January 2019 and 30 June 2019	7,093,386,381	1,285,158

At 30 June 2019, the rights granted to Tiger Capital Fund to subscribe for a maximum of 60,000,000 new ordinary shares ("Option Shares") in December 2016 remained outstanding and expire in December 2021. No option shares granted were exercised or lapsed during the six months ended 30 June 2019.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

17. RELATED PARTY DISCLOSURES

In addition to the transactions, balances and commitments disclosed elsewhere in this report, during the six months ended 30 June 2019, the Group entered into the following transactions with related parties:

Related parties

Petropavlovsk PLC, which is a substantial shareholder of the Company, and its subsidiaries are considered to be related parties.

As disclosed below, Petropavlovsk PLC, the Company and LLC KS GOK have entered into an agreement setting out the terms on which Petropavlovsk PLC provides a guarantee securing the Gazprombank Facility.

Trading transactions

Related party transactions the Group entered into that related to the day-to-day operation of the business are set out below.

	Services provided ^(a)		Services received ^(b)	
	Six months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	–	–	690	2,091
LLC NPGF Regis	–	1	–	–
CJSC Pokrovsky Rudnik	–	–	1,804 ^(c)	–
Malomirsky Rudnik	–	211	–	–
MC Petropavlovsk	159	177	19	38
LLC Gidrometallurgia	60	59	–	–
LLC BMRZ	–	–	4	–
CJSC Pokrovskiy Rudnik	–	–	–	167

(a) Amounts represent fee received/receivable from related parties for provision of helicopter services and administrative support.

(b) Amounts represent fee paid/payable to related parties for receipt of financial guarantee, administrative support, and interest payable/paid on short term loan.

(c) The amounts represent interest on loan borrowings from CJSC Pokrovsky Rudnik during the current interim period.

The related party transactions as disclosed above were conducted in accordance with terms mutually agreed with counter parties.

Notes to the Condensed Consolidated Financial Statements (continued)

For the Six Months Ended 30 June 2019

17. RELATED PARTY DISCLOSURES (CONTINUED)

Trading transactions (Continued)

The outstanding balances with related parties at the end of the reporting period are set out below.

	Amounts owed by related parties ^(a)		Amounts owed to related parties ^(b)	
	As at 30 June 2019 US\$'000 (unaudited)	As at 31 December 2018 US\$'000 (audited)	As at 30 June 2019 US\$'000 (unaudited)	As at 31 December 2018 US\$'000 (audited)
Petropavlovsk PLC and its subsidiaries				
Petropavlovsk PLC	–	–	5,026	10,336
OJSC Irgiredmet	–	–	2	2
LLC NPGF Regis	17	16	96	104
CJSC Albynsky Rudnik	148	135	–	–
CJSC Pokrovskiy Rudnik	180	163	–	54,076 ^(c)
Malomirsky Rudnik	11	151	–	–
MC Petropavlovsk	758	509	1,980	1,952
LLC Gidrometallurgia	3	–	–	–
LLC BMRZ	–	–	2	–

(a) The amounts are recorded in other receivables, which are unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period.

(b) Other than the outstanding loan balance of US\$54,029,000 due to CJSC Pokrovskiy Rudnik as described in note (c) below, the amounts are recorded in other payables, which are unsecured, non-interest bearing and repayable on agreed terms within twelve months from the end of the reporting period.

(c) The balance included a loan from CJSC Pokrovskiy Rudnik of US\$54,029,000 at 31 December 2018.

Key Management Compensation

The remuneration of directors, which represent members of key management, during the period was as follows:

	Six months ended 30 June	
	2019 US\$'000 (unaudited)	2018 US\$'000 (unaudited)
Short-term benefits	1,062	1,050
Post-employment benefits	45	57
Share-based payments	185	491
	1,292	1,598

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

RESULTS OF OPERATIONS

The following table summarises the consolidated results of the Group for the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June		
	2019	2018	Variance
Key Operating Data			
<i>Iron Ore Concentrate</i>			
– Production volume (wet metric tonnes)	1,262,938	1,084,602	16.4%
– Sales volume (wet metric tonnes)	1,239,398	1,046,649	18.4%
<i>Average selling price (US\$/tonne)</i>			
– based on wet metric tonne [^]	71	67	6.0%
– based on dry metric tonne [^]	77	73	5.5%
Consolidated Income Statement (US\$'000)			
Revenue			
Iron Ore Concentrate	88,546	69,962	26.6%
Engineering Services	698	223	>100%
Total Revenue	89,244	70,185	27.2%
Site operating expenses and service costs before depreciation and amortisation	(65,924)	(56,123)	17.5%
General administration expenses before depreciation and amortisation	(5,118)	(5,229)	(2.1%)
Depreciation and amortisation	(14,919)	(9,132)	63.4%
Other income, gains and losses	508	1,713	(70.3%)
Foreign exchange (losses)/gains	(5,520)	1,263	N/A
Write-off of unamortised loan costs	(11,465)	–	N/A
Allowance for financial assets measured at amortised cost	–	(7,548)	N/A
Other financial costs	(12,738)	(10,430)	22.1%
Loss before taxation	(25,932)	(15,301)	69.5%
Income tax credit/(expense)	708	(336)	(>100%)
Loss after taxation	(25,224)	(15,637)	61.3%
Non-controlling interests	20	18	11.1%
Loss attributable to owners of the Company	(25,204)	(15,619)	61.4%
Underlying Results (US\$'000)			
EBITDA			
– Mine in production	23,683	14,561	62.6%
– Group (excluding foreign exchange)	18,684	10,503	77.9%
– Group	13,164	11,766	11.9%
Loss attributable to owners of the Company,			
– excluding one-off non-recurring items	(13,739)	(8,071)	70.2%
– excluding one-off non-recurring items and foreign exchange	(8,219)	(9,334)	(11.9%)

[^] If the average selling price is calculated based on dry metric tonne and, before taking into account the negative price variance of about US\$9.3 per tonne due to hedging, average selling price was about US\$86.5 per tonne for the six months ended 30 June 2019 (30 June 2018: US\$74.5 per tonne).

THE UNDERLYING RESULTS OF THE GROUP

IRC's operating results are mainly derived from the operation of K&S. The Group manages its operations with principal reference to the underlying operating cash flows and recurring earnings.

EBITDA

EBITDA is a key performance indicator for IRC. For the first half of 2019, due to the higher sales revenue from the K&S mine, EBITDA of the mine in production segment increased by 62.6% to US\$23.7 million. This is also reflected in the Group's EBITDA. If the foreign exchange movement is excluded, the Group's EBITDA improved by 77.9% from US\$10.5 million in the first half of 2018 to US\$18.7 million in 2019.

The Group's net EBITDA is, however, affected by foreign exchange change movements. The bridging loan from Petropavlovsk as well as the accruals and payables of the Group were mostly denominated in Russian Rouble and the appreciation of Rouble has given rise to foreign exchange losses. In the first half of 2019, we reported a foreign exchange loss of US\$5.5 million while a gain of US\$1.3 million was recorded in the same period last year. This US\$6.8 million swing in foreign exchange, which is not within IRC's control, resulted in the group's 2019 EBITDA being only 11.9% higher than that of last year.

Loss attributable to owners of the Company – excluding one-off non-recurring items

The Group's income statement sometimes includes certain material non-cash items which are non-operating and non-recurring in nature and should be considered separately.

The Group had an unamortised borrowing cost of US\$11.5 million relating to the ICBC loan which was to be amortised. As the Group has refinanced the ICBC loan facility in the first half of 2019, this necessitated an accounting adjustment to fully write off this unamortised cost of in the statement of profit or loss in the first half of 2019, instead of amortising the cost over the remaining loan term. The write off does not have any cash impact on the Group.

In the first half of 2018, the Company had a net receivable from General Nice and, due to a winding up order being made by the High Court of Hong Kong against General Nice, it was unlikely that the Company would recover the receivable. Consequently, a one-off, non-cash provision of US\$7.5 million was charged to the statement of profit or loss.

To facilitate a better understanding of the Group's operating results, the calculation of the Group's underlying results, which excludes the effect of the above items, is set out below:

US\$'000	For the six months ended 30 June		Variance
	2019	2018	
Loss attributable to owners of the Company	(25,204)	(15,619)	61.4%
Write-off of unamortised loan costs of ICBC loan	11,465	–	N/A
Impairment provision for the receivable from General Nice	–	7,548	N/A
Underlying loss for the period	(13,739)	(8,071)	70.2%
Foreign exchange	5,520	(1,263)	N/A
Underlying loss for the period, excluding foreign exchange	(8,219)	(9,334)	(11.9%)

The underlying loss of the Group amounted to US\$13.7 million (30 June 2018: US\$8.1 million). The higher loss figure was mainly due to the following:

- A greater foreign exchange loss, as explained above;
- Higher depreciation charge resulting from the reversal of asset impairments at the end of 2018; and
- Higher other financial costs due to the higher interest rates of the loans from Gazprombank and Petropavlovsk.

The effect of foreign exchange played a significant part in the underlying results. If the effect of foreign exchange, which is not within the control of IRC, is excluded, the underlying loss reduced by US\$1.1 million to a loss of US\$8.2 million. It is considered that this is a more accurate reflection of IRC's performance in the first half of 2019.

REVENUE

Iron ore concentrate

K&S mine is the main revenue contributor, accounting for most of IRC's revenue in the first half of 2019. The mine continues to increase sales and production volumes since the commencement of commercial production in 2017. The market continued to demonstrate good demand for high-grade iron ore during the reporting period. When comparing to the same period last year, the sales of iron ore concentrate from K&S increased by 18.4% to 1,239,398 tonnes.

The achieved selling price increased by 5.5% to US\$77 per tonne on the dry metric tonne basis. This is arrived at after taking into account the effect of hedging. As part of the ongoing hedging program for risk management purposes, IRC considered it prudent to take advantage of the strong price environment. During the 6-month period, IRC entered into various hedging contracts to reduce the risks of adverse price movements. IRC's strategy is to hedge no more than half of K&S's production with the remaining volume left unhedged. The hedging instruments, mostly in the form of protective collars, would protect IRC from any significant reduction in iron ore price. Although IRC may not be able to fully capture the upside of the market price increase, as some of the protective hedging transactions were entered into before the price surge due to the Vale incident, hedging allows the Group to secure a comfortable level of profit and cashflow which are particularly important for a single-product company like IRC. If the effect of hedging is excluded, the achieved selling price on dry metric tonne basis would be US\$86.5 per tonne. Under the accounting policy of IRC, the hedging instruments are subject to fair valuation adjustments with the gains or losses being reflected in reserve. As of 30 June 2019, the fair value loss of the hedging instruments amounted to US\$21.2 million. As the market iron ore price softened after the 2019 interim end, the fair value loss reduced to approximately US\$10 million as of the end of August 2019.

As a result of the increased sales volume and selling price, the revenue from K&S mine amounted to US\$88.5 million in the first half of 2019, representing a 26.6% increase over the same period last year.

Engineering Services

Revenue from Giproruda, the small engineering services division of the Group, stably increased from US\$223,000 to US\$698,000, representing increased billing.

SITE OPERATING EXPENSES AND SERVICE COSTS BEFORE DEPRECIATION AND AMORTISATION

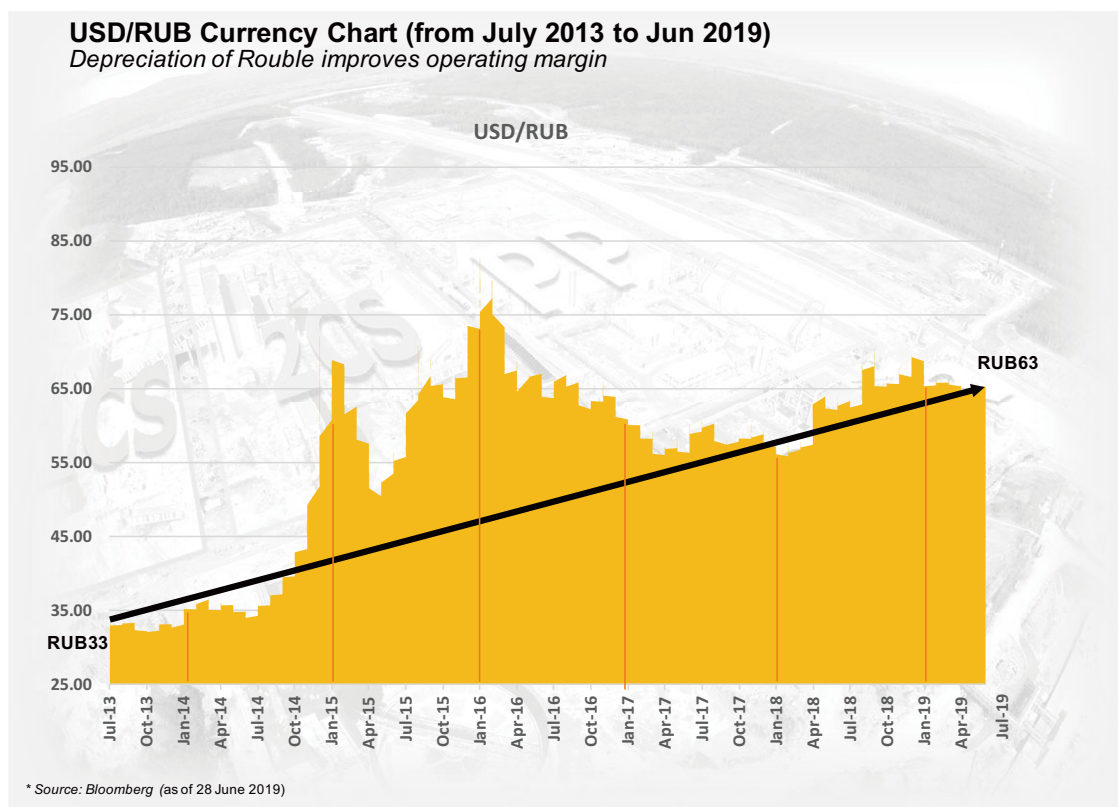
Site operating expenses and service costs mainly represents the mining and operating expenses incurred by the Group's sole mine in production, the K&S operation, in respect of the sales of the iron ore concentrate. K&S commenced commercial production in 2017 and IRC started recognising its operating results in the income statement since the beginning of 2017. K&S is progressively conducting the ramp up progress for the plant in order to reach full production capacity level. As a result, there is an increase in site operating expenses and service costs to US\$65.9 million in the first half of 2019 (30 June 2018: US\$56.1 million) to match with the increased scale of operation. Despite increase in subcontracting mining costs and engineering services, resulting from higher stripping ratios and greater transportation distance as mining activities gradually expand to the outskirt of the pit, the 17.5% increase in cost is proportionately lower than the 18.4% increase in sales volume, reflecting the effect of IRC's stringent cost control.

The details of the key cash cost components of the iron ore concentrate sold are showed in the table below:

	For the six months ended 30 June		
	2019		2018
	Total cash cost US\$ million	Cash cost per tonne sold US\$/t	Cash cost per tonne sold US\$/t
Mining	22.3	17.7	12.2
Processing	13.3	10.6	11.6
Production overheads, site administration and related costs	13.2	10.4	10.8
Transportation to customers	19.4	15.7	18.2
Movements in inventories and finished goods	(5.7)	(4.5)	(1.1)
Net cash cost	62.5	49.9	51.7

The cash cost per tonne sold in the first half of 2019 decreased by 3.5% to US\$49.9 despite a general inflation of 5.1% in Russia. Due to economy of scale on K&S's production, the processing and production overheads, site administration and related costs on a per-tonne basis reduced by 8.6% and 3.7% respectively. In addition, transportation cost to customers reduced by 13.7% to US\$15.7/t. When the Amur River Bridge is operational, the transportation cost to customers in China could additionally save up to US\$5 per tonne. The higher stripping ratio resulted in higher mining cost during the period, and this is in line with the mining plan. Towards the end of June 2019, the Russian Rouble slightly strengthened to close at RUB63 to the US dollar. Despite this small appreciation in June, over the first half of 2019, the currency generally remained weak. Russian Roubles depreciated to about RUB66 to the US dollar towards end of August 2019. While the Group's income is mainly US Dollars denominated and therefore unaffected by the weakness of Roubles, the Group's operating costs, which are mostly denominated in Roubles, would be reduced as Roubles depreciates.

The chart below shows the depreciation of the Roubles over the past 6 years:



GENERAL ADMINISTRATION EXPENSES BEFORE DEPRECIATION AND AMORTISATION

Special attention continues to be paid to controlling administration costs. The successful implementation of the cost controls continued to provide benefits, with the Group's general administration expenses before depreciation and amortisation of US\$5.1 million remained in line with that of last year despite inflation.

DEPRECIATION AND AMORTISATION

In previous years, due to volatility in the global economy and weakness in the commodity markets, significant asset impairments were made against the carrying value of K&S. In 2018, with the successful operation of the mine and the recovery of the market iron ore price, a reversal of asset impairment was made to reflect the increase in asset value. With a higher asset value resulting from the impairment reversal, depreciation charges in 2019 increased from US\$9.1 million in the first half of 2018 to US\$14.9 million in 2019.

SEGMENT INFORMATION

The mine in production segment, mainly represents the production and sales of the K&S mine, generated an EBITDA of US\$23.7 million (30 June 2018: US\$14.6 million), representing an increase of 62.6%. After taking into account the depreciation and amortisation charges, the segment reports a profit of US\$9.1 million in the first half of 2019 (30 June 2018: US\$5.6 million). The Kuranakh operation continues to be under care and maintenance and has no production during the period. The engineering segment recorded a loss of US\$0.4 million due to higher operating cost.

FOREIGN EXCHANGE LOSS

The foreign exchange loss of US\$5.5 million in 2019 was mainly attributable to the loss arising from the bridge loan from Petropavlovsk and other payables and accruals which were mostly Rouble denominated.

OTHER FINANCIAL COSTS

Other financial costs of US\$12.7 million mainly represents the interest expenses on loans from ICBC, Gazprombank and Petropavlovsk. The increase in other financial costs was mainly due to the loans from Gazprombank and Petropavlovsk bearing higher interest rates.

INCOME TAX CREDIT

The income tax credit of US\$0.7 million (30 June 2018 income tax expense: US\$0.3 million) mainly represents the deferred tax credit.

LOSS ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The improvement of the iron ore concentrate price and increasing production volume of K&S contributed to the positive operating results of the Group. However, due to the need to write off the unamortised loan cost of US\$11.5 million, coupled with higher depreciation and other financial costs, the loss attributable to the owners of the company in the first half of 2019 amounted to US\$25.2 million (2018: US\$15.6 million).

CASH FLOW STATEMENT

The following table summaries the key cash flow items of the Group for the six months ended 30 June 2019 and 30 June 2018:

US\$'000	For the six months ended 30 June	
	2019	2018
Net cash generated from operations	13,069	11,675
Interest paid	(10,138)	(5,656)
Capital expenditure	(1,695)	(2,227)
Taxes paid	(37)	(2,367)
Proceeds and repayments of borrowings, net	8,990	(1,376)
Loan guarantee and debt arrangement fees paid	(9,450)	–
Other payments, lease liabilities and adjustments, net	(1,067)	(18)
Net movement during the year	(328)	31
Cash and bank balances (including time and restricted deposits)		
– At 1 January	8,614	10,974
– At 30 June	8,286	11,005

The net cash generated from operations amounted to US\$13.1 million (30 June 2018: US\$11.7 million), mainly due to increased cash inflow from the K&S mine. In line with the increase in the scope of operation and the higher selling price of iron ore, the accounts receivable balance also increased accordingly. The higher interest rates of the loans from Gazprombank and Petropavlovsk resulted in an increase in interest payment from US\$5.7 million to US\$10.1 million. Capital expenditure of US\$1.7 million was incurred mainly by the K&S mine to support the ramping up of its production. Loan guarantee and debt arrangement fees paid mainly represent the settlement of guarantee fee due to Petropavlovsk and the arrangement fee incurred in relation to the Gazprombank facility.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Share Capital

There were no changes in the share capital of the Company in the first half of 2019.

Cash Position and Capital Expenditure

As at 30 June 2019, the carrying amount of the Group's cash, deposits and bank balances was approximately US\$8.3 million (31 December 2018: US\$8.6 million).

Exploration, Development and Mining Production Activities

For the six months ended 30 June 2019, US\$66.6 million (30 June 2018: US\$57.4 million) was incurred on development and mining production activities. No exploration activity was carried out for the first half of 2019 and 2018. The following table details the capital and operating expenditures in the first half of 2019 and 2018:

US\$m	For the six months ended 30 June					
	2019			2018		
	Operating expenses	Capital expenditure	Total	Operating expenses	Capital expenditure	Total
K&S development	64.9	1.5	66.4	55.4	1.9	57.3
Exploration projects and others	0.0	0.2	0.2	0.1	0.0	0.1
	64.9	1.7	66.6	55.5	1.9	57.4

The table below sets out the details of material new contracts and commitments entered into during first half of 2019 on a by-project basis. The amount was relatively small, reflecting the fact that the K&S mine is close to ramping up to full capacity.

US\$m	Nature	For the six months ended 30 June	
		2019	2018
K&S	Purchase of property, plant and equipment	–	0.2
	Sub – contracting for mining works	0.9	0.5
	Sub – contracting for railway and related works	0.2	0.8
Others	Other contracts and commitments	0.6	0.7
		1.7	2.2

Borrowings and Charges

As at 30 June 2019, the Group had gross borrowings of US\$234.8 million (31 December 2018: US\$223.7 million), mainly represents the new long-term borrowing drawn from the Gazprombank loan facility. The Gazprombank loan facility is guaranteed by Petropavlovsk. The Group's weighted average interest rate was approximately 9.7% (30 June 2018: 6.6%) per annum.

As announced on 20 March 2019, the refinancing of the ICBC loan has been completed with a drawdown from Gazprombank loan facility on 19 March 2019. The proceeds from the Gazprombank facility has been applied in accordance with the intended use of proceeds to use as the working capital of K&S, full repayments of K&S's outstanding principal indebtedness under ICBC facility and loans from Petropavlovsk. The repayment schedule of the new facility with Gazprombank better aligns with the ramping up of K&S's production and should improve the cashflow position of the Group. This is reflected in the amount of borrowing due within one year, as the amount reduced from US\$112.0 million as of the 2018 year end to US\$20.7 million as of 30 June 2019.

Risk of Exchange Rate Fluctuation

The Group undertakes certain transactions denominated in foreign currencies, principally Russian Rouble and is therefore exposed to exchange rate risk associated with fluctuations in the relative values of US Dollars. Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, primarily through holding the relevant currencies. As of 30 June 2019, the Group does not undertake any material foreign currency transaction hedging.

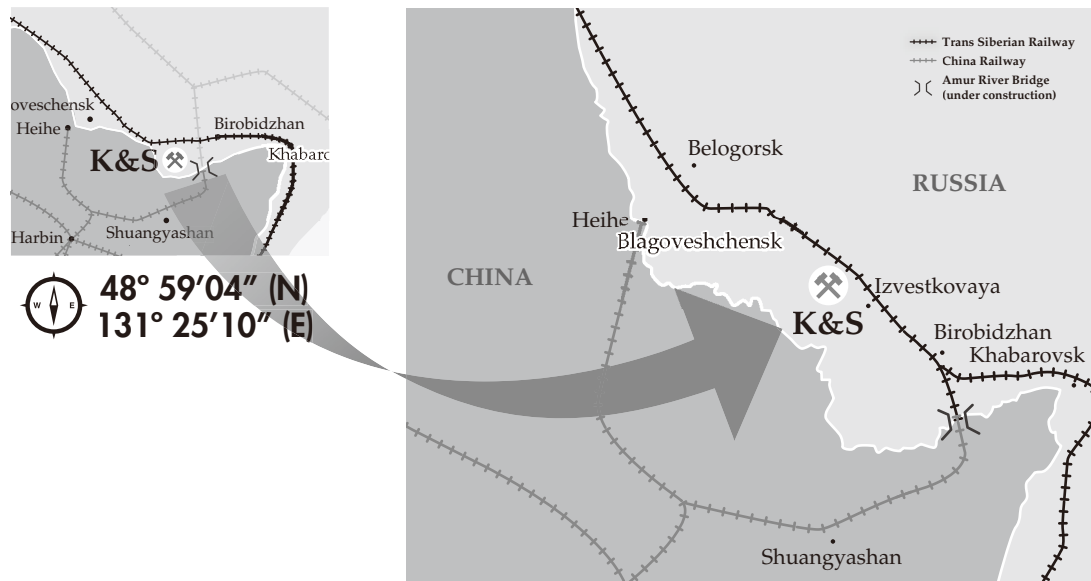
Employees and Emolument Policies

As at 30 June 2019, the Group employed approximately 1,667 employees (31 December 2018: 1,698 employees). The total staff costs excluding share-based payments was US\$12.3 million in the reporting period. (30 June 2018: US\$12.2 million). The emolument policy of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence with reference to market conditions and trends.

PROJECT REVIEW

K&S

100% owned



OVERVIEW

The K&S Mine, 100% owned by IRC, is located in the Jewish Autonomous Region (EAO) of the Russian Far East. It is the second full-scale mining and processing operation that the Group has developed. The project consists of two principal deposits – Kimkan and Sutara. The K&S Phase I is to produce 3.2 million tonnes per annum of iron ore concentrate with 65% Fe grade. There is an option for a Phase II expansion to produce a total of 6.3 million tonnes of 65% iron ore concentrate per annum. As an interim development between the two phases, IRC is assessing an option to upgrade the Phase I production facility to increase the production capacity to about 4.6 million tonnes per annum with a capital expenditure requirement of about US\$50 million. The Phase I Processing Plant has been constructed by CNEEC and funded through a project finance facility provided by ICBC. During March of 2019, IRC has completed refinancing of the ICBC loan with a loan facility from a Russian leading bank, Gazprombank. The principal repayment of the Gazprombank facility is skewed to the latter part of the loan term so that the repayment pattern will better align with the production plans of K&S.

K&S enjoys tremendous geographical advantage. The Trans – Siberian Railway is linked directly to the mine site, allowing easy transport of products to customers. With the usage of the Amur River Bridge which is expected to be completed and operational soon, the transportation cost and distance can be further reduced.

K&S is located in the Obluchenskoye District of the Jewish Autonomous Region (EAO) in the Russian Far East. The operation is 4 kilometres from the town of Izvestkovaya, through which the Trans-Siberian Railway passes. It is also 130 kilometres from the federal highway connecting to the regional capital of Biobidzhan, and 300 kilometres from Khabarovsk, the principal city of the Russian Far East.

K&S RAMP-UP PROGRESS ENTERING INTO FINAL PHASE

During the first half of 2019, K&S's ramp up programme continued and successfully managed several challenges, including taken proper mitigating measures on the issues of drying unit and gearbox in one of the crusher's feeder. In June, K&S broke its monthly production record by operating at an average capacity of 93%. K&S's mining contractors have been maintaining the work rates to ensure the sufficient supply of feedstock for K&S's increasing production volume. Although some additional ramping up issues have been revealed, K&S team is planning to resolve them quickly. Despite more ramping-up tests needing to be conducted, K&S's Processing Plant operated in a continuous manner at a steady production capacity of about 80% in the interim of 2019. With the well-experienced site team, IRC remains confident in resolving the outstanding issues to allow K&S to continue the increase in production volume. The current focus is to achieve designed capacity and catch up on previous deficits.

PRODUCTION

During the first half of 2019, 3,889,400 tonnes of ore was fed for primary processing and 2,652,538 tonnes of pre-concentrate was produced. Finally, 1,262,938 tonnes of iron ore concentrate was produced and 1,239,398 tonnes was sold.

SALES & MARKETING

As K&S is producing more iron ore concentrate, it has also successfully diversified its customer base by selling to customers in different countries and regions, including Russia and China. During the first half of 2019, apart from selling to its existing customers, K&S made trial shipments on CFR basis to customers in the more southern part of China. Despite having higher transportation cost, the achieved selling price was higher. It shows the Group's ability to supply to different geographical markets, as diversification of customers allows the Group to better manage transportation, marketing and pricing risks.

UNIT CASH COST

In view of the fact that K&S has not reached full production capacity, the unit cash cost per tonne in the first half of 2019 amounting to US\$49.9 per tonne has not yet reached its optimal level. Taking into account the potential Rouble depreciation and the opening of the Amur River Bridge to reduce transportation costs, the Group considers that K&S's cash cost is expected to be further reduced when full scale operation at K&S is achieved.

SAFETY

The LTIFR is a measure of the number of lost-time injuries per one million hours worked. During the first half of 2019, the K&S's safety was well controlled with only one injury occurred at operation and the LTIFR was 1.45 (30 June 2018 LTIFR: zero).

MINING

The Kimkan operation covers approximately 50 km² and comprises two key ore zones – Central and West. Open pit mining is carried out at the Central area, with ore being stockpiled for processing.

During the reporting period, the mining contractors had mined 4,766,300 tonnes of ore, drilled 276,358 metres and blasted 6,998,100 cubic metres at K&S. The mining contractors continue to replenish the stockpiles and prepare for the uplift in production volume in 2019.

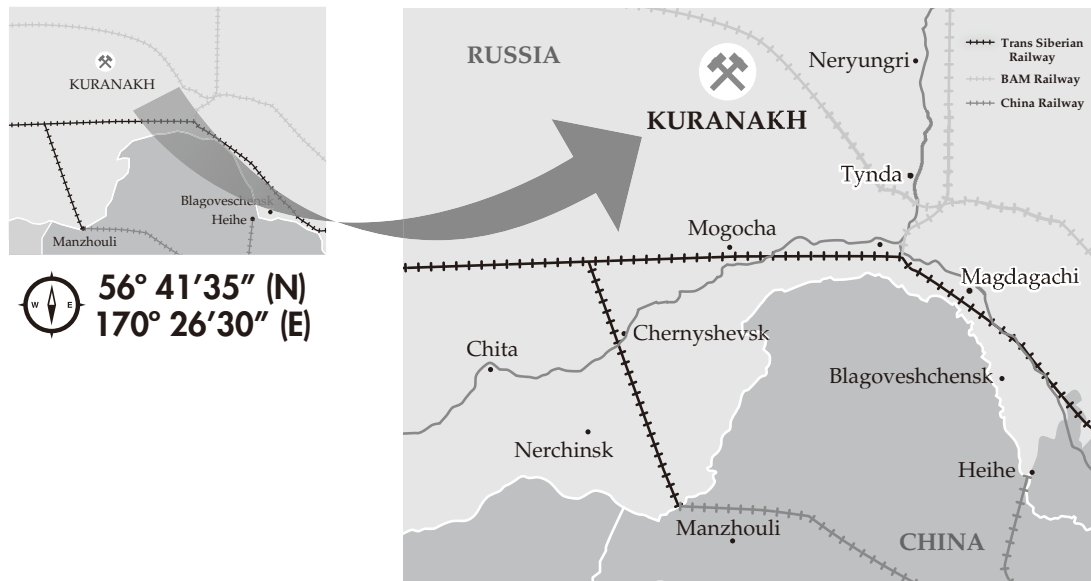
AMUR RIVER BRIDGE/TONGJIANG BRIDGE

Amur River Bridge is a national project to build a railway bridge across the Amur River border between Russia and China. The Amur River Bridge was hailed as one of the major projects between the two countries. These infrastructure projects are expected to bring closer economic cooperation which IRC may benefit from.

According to the local media, in March 2019, the authorities of China's Heilongjiang province has confirmed the last steel beam of the Russian-Chinese railway bridge over Amur River has been installed. Russia has fully completed its engineer work on its side of the bridge. With China having completed the construction of its part in 2018, the main span of the bridge has been connected. The construction and installation of the related infrastructure works and border checkpoints are currently under way and the bridge is expected to be operational soon. The current distance from K&S to the Chinese border (Suifenhe) is approximately 1,000 kilometres. K&S mine is situated approximately 240 kilometres from the bridge site and IRC's nearest customer within China is approximately 180 kilometres away from the bridge. When the Bridge is operational, K&S will be able to reduce the transportation cost to the Chinese border by up to US\$5 per tonne, allowing K&S to strengthen its position as a low-cost iron ore concentrate producer. Moreover, the Bridge will become a part of the new export route and stimulus for the creation of new logistical and industrial clusters, improving the transport accessibility of the region which K&S is expected to benefit indirectly.

Kuranakh

100% owned



OVERVIEW

Kuranakh, 100% owned by IRC, is the Group's first mining operation and the first vertically integrated titano-magnetite operation in Russia, designed, built and managed by IRC. The mine was initiated in 2010 and moved to care and maintenance since beginning of 2016 due to challenging operating environment in the commodities market at that time.

The Kuranakh Mine is located in the Amur Region of the Russian Far East, near the town of Olekma, a principal stop on the BAM Railway. The operation covers an area of approximately 85 km² and comprises the Kuranakh and Saikta open-pit mines, an on-site Crushing and Screening Plant and the nearby Olekma Processing Plant. The operation produces an iron ore concentrate with a 62.5% Fe quality content and an ilmenite concentrate with a 48% TiO₂ quality content. The concentrates can be directly loaded onto railcar wagons for transportation via the BAM and Trans – Siberian Railways to customers in Russia and China and internationally via the Russian Pacific sea ports.

SAFETY

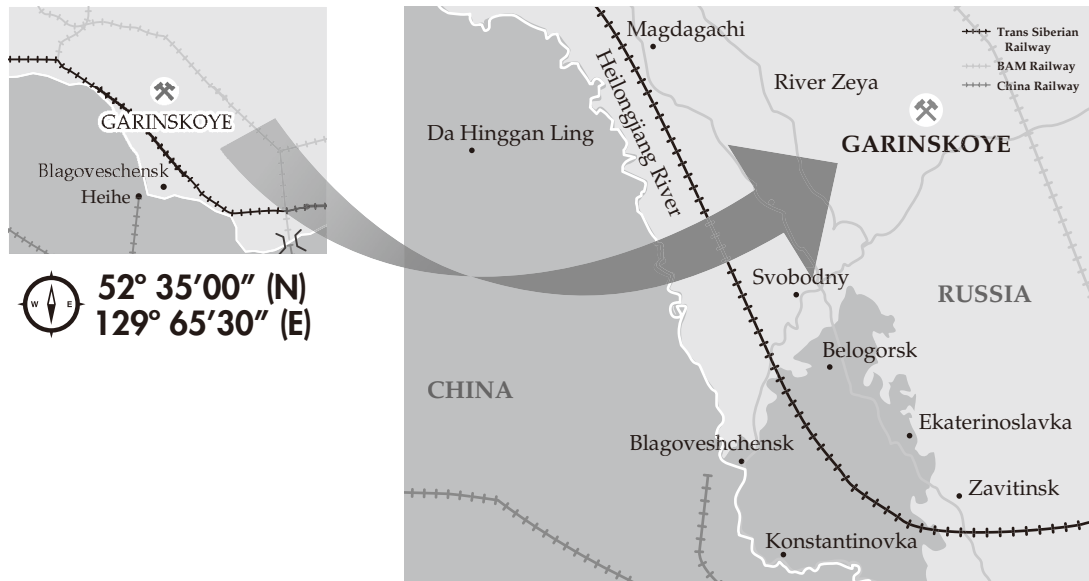
As the mine was moved into care and maintenance, there was no injuries and the LTIFR was zero during the first half of 2019 (30 June 2018 LTIFR: 0).

CONTINUED TO BE IN CARE & MAINTENANCE

Kuranakh has been moved to care and maintenance since the beginning of 2016 due to the softening of the iron ore market prices. Consequently, during the first half of 2019, there was no production or sales from Kuranakh operation. The only minimal costs recorded were for equipment maintenance and security. Although the subsidiary company that holds Kuranakh has applied for liquidation to save the ongoing costs, IRC retains the option of re-opening Kuranakh or pursuing other development alternatives if the metal markets upside prevails.

Garinskoye

99.6% owned



OVERVIEW

Garinskoye, 99.6% owned by IRC, is an advanced exploration. The project offers the potential for a low-cost DSO-style operation, that can be transitioned into a large-scale long-life open pit mining operation.

The project is located in the Amur Region of the Russian Far East, midway between the BAM and Trans-Siberian Railways. With exploration licences for ground covering an area of over 3,500 km², the project is the largest in terms of area in the IRC portfolio.

CURRENT DEVELOPMENT

There are two possibilities to develop Garinskoye. The first option is to develop a large-scale 4.6 million tonne per annum open-pit operation with a life-of-mine of 20 plus years, which requires the construction of a rail connection. The second option is an intermediate DSO-style operation that does not require a rail connection and can be started up in advance of a larger conventional operation. The DSO-style plan comprises a pit with a 20.2 million tonnes reserve, 48% Fe grade, and a stripping ratio of 1.7:1 m³ per tonne. The DSO-style plan would then be able to produce 1.9 million tonnes per annum, with 55% grade iron ore fines and a life of operation of 8 years. There is an option to further increase the project value at very little additional capital expenditure with the addition of a further wet magnetic separation stage to produce a high-grade "super-concentrate" with a 68% iron ore content.

In 2013, IRC completed an internal Bankable Feasibility Study. In 2014, a third-party verification and a fatal flaws analysis for the DSO-style operation was carried out.

Currently, the Garinskoye project is placed on hold until the market conditions for iron ore improve.

OTHER PROJECTS

Exploration Projects & Others

IRC's other exploration projects comprise an extensive portfolio that is diversified by geography, commodity and development stages. It aims to add value through the discovery of new resources and increasing and confirming mineable reserves. Currently, IRC is keeping these valuable licenses for later development until market conditions improve. Apart from exploration projects, IRC is also involved in complementary business of a steel slag reprocessing plant (SRP) and a mining consultancy services agency (Giproruda). Regarding the SRP project, as its feedstock was dependent on the concentrate from Kuranakh, and as the latter was moved to care and maintenance during 2016, it was moved to care and maintenance. Having successfully sourced feedstock from China, the SRP project with Jianlong Steel has recommenced operation in the first half of 2019. Below is a summary of the Group's current exploration projects portfolio:

Project	Products/Service	Location
Kostenginskoye* (100% owned)	Iron ore concentrate	Jewish Autonomous Region, Russian Far East
Bolshoi Seym (100% owned)	Ilmenite	Amur Region, Russian Far East
SRP (46% owned)	Vanadium Pentoxide	Heilongjiang, China
Giproruda (70% owned)	Technical mining research and consultancy services	St. Petersburg, Russia

* Resource base for K&S

CORPORATE GOVERNANCE AND OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities. As at 30 June 2019, the Company had not been notified of any short positions being held by any substantial shareholder in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV of the Securities and Futures Ordinance.

Corporate Governance and Other Information

The Management and Board of IRC are committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Detailed disclosure of the Company's corporate governance policies and practices is available in the 2018 Annual Report of the Company.

During the six months ended 30 June 2019, the Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited except that the Independent Non-Executive Director, Mr. Simon Murray, CBE, Chevalier de la Légion d'Honneur was unable to attend the annual general meeting of the Company held on 19 June 2019 as provided for in code provision A.6.7 as he had overseas engagements. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The Company has made specific enquiry of all the Directors regarding any non-compliance with the Model Code during the period and they have confirmed their full compliance with the required standard set out in the Model Code. The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and the holding companies who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

Petropavlovsk is connected party of the Group and transactions with this entity during the six months ended 30 June 2019 are set out in note 17 to the condensed consolidated financial statements.

The 2019 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

Publication of Interim Results and Interim Report

This results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and of the Company (www.ircgroup.com.hk). The interim report of the Company for the six months ended 30 June 2019 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on both websites on or before 30 September 2019.

By Order of the Board

IRC Limited

Yury Makarov

Chief Executive Officer

Hong Kong, People's Republic of China

Friday, 30 August 2019

As at the date of this announcement, the Executive Directors of the Company are Mr Yury Makarov and Mr Danila Kotlyarov. The Non-Executive Directors are Mr Peter Hambro, and Mr Chi Kin Cheng. The Independent Non-Executive Directors are Mr Daniel Bradshaw, Mr Chuang-Fei Li, Mr Simon Murray, CBE, Chevalier de la Legion d'Honneur, Mr Jonathan Martin Smith and Mr Raymond Kar Tung Woo.

IRC Limited

6H, 9 Queen's Road Central, Hong Kong

Tel: +852 2772 0007

Fax: +852 2772 0329

Email: ir@ircgroup.com.hk

Website: www.ircgroup.com.hk

For further information please visit www.ircgroup.com.hk or contact:

Kent Lo

Manager – Communications & Investor Relations

Telephone: +852 2772 0007

Mobile: +852 9688 8293

Email: kl@ircgroup.com.hk